

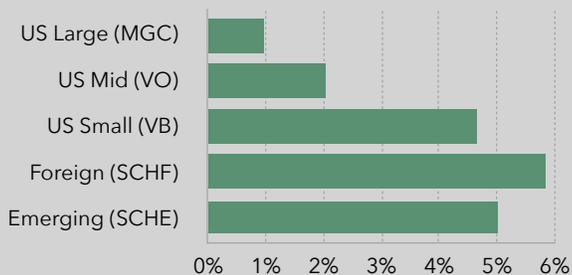
January 2026

Economic Data

- Delayed employment data showed 130,000 jobs were added in January and the unemployment rate declined to 4.3%, however downward revisions to 2025 show that the US only added about 15,000 jobs per month last year
- Retail sales were flat in December
- Y/y inflation (CPI) held at a 2.7% pace in December; the core rate (less food and energy) was also flat at 2.6%
- Existing homes were up 5.1% in December and up 1.4% y/y; the median home price fell to \$405,400

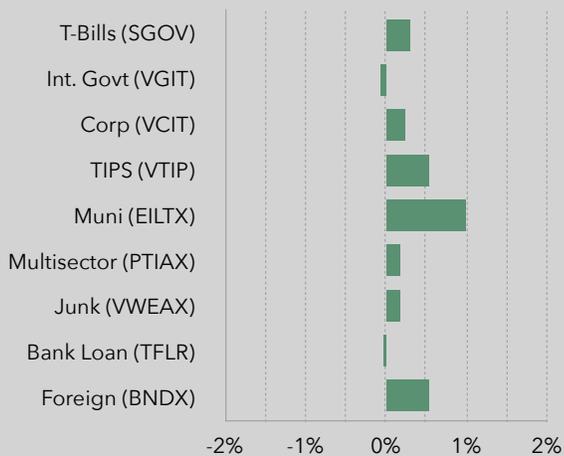
Stocks

January Returns



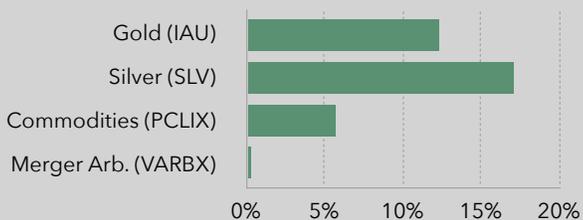
Bonds

January Returns



Alternatives

January Returns



Performance data provided by Morningstar

The brain uses two systems to process information. The first type is intuitive but lazy, rapidly forming judgements with no conscious input. The second system is slow, reflective, and not guided by emotions. It is that second system — type 2 — that we want in control of our investment portfolios.

The Letter People and Economists

Early education made a shift toward modern, research-based phonics approaches to teach children how to read in the 1990s. How did we children of the '70s and '80s learn to do it before that? Cartoons and puppets, of course. We had the Letter People: 26 anthropomorphic characters that gave each letter a name and memorable trait. And we learned to read pretty good —er, well—with those puppets teaching us. Economists—a largely nameless, faceless group of people who miraculously find work telling us what has already happened—must have grown up with the same system, because they love to assign letters to the shape and trajectory of the economy.



Mr. V—Violet Velvet Vest

The ideal scenario from a sharp economic decline is the V-shaped recovery. Picture a steep drop in activity, hitting bottom quickly, then bouncing back to pre-recession levels with minimal lingering damage. This shape reflects strong fundamentals, effective policy responses, and quick consumer confidence restoration. Optimists often hope for this during downturns, as it minimizes long-term harm. The most recent example of this would probably be the US stock market during the tariff tantrum back in April.

Next is the U-shaped recovery, where the economy slides gradually into a trough, lingers at the bottom for an extended period, and then climbs back slowly. This creates a rounded "U" on charts, indicating prolonged stagnation before growth resumes. The 1990-91 recession, triggered by the savings and loan (S&L) crisis, and the dot-com bust are often cited as examples of this. It's more painful than a "V" but eventually rebounds fully.



Miss U—Umbrella



Mr. W—Winking

A W-shaped recovery, better known as the double-dip recession, involves an initial decline, a brief uptick, and then another drop before sustainable growth. This zigzag forms a "W," often due to premature policy withdrawal or external shocks interrupting the rebound. The early 1980s fits this mold: a downturn in 1980 gave way to a partial recovery, only for high interest rates to spark another recession in 1981-1982. It's volatile and erodes confidence, making it rather unpleasant for investors.

The most pessimistic, however, is the L-shaped recovery. This is marked by a precipitous fall followed by flatlining at low levels, with no quick return to prior highs. This suggests deep structural damage, like asset bubbles bursting or lost productivity. The Great Financial Crisis is often labeled as an "L." Japan's "Lost Decade" is another example—it was at its economic and cultural peak in 1989 when *Back to the Future II* came out, but suffered stagnation lasting years in the 1990s. The Great Depression also leaned L-shaped in parts, highlighting how policy failures can prolong suffering.



Mr. L—Lollipops



Mr. K—Kicking

More recently, you may have heard our current economy described as K-shaped. Unlike the other economic letter people, which track aggregate metrics, a K-shaped recovery highlights divergence. Some sectors or groups surge upward (the top arm of the K), while others decline or stagnate (the bottom arm). This term gained traction during the COVID-19 recession, where tech, finance, and high-income households boomed via remote work, stock gains, and asset

appreciation, but service industries, small businesses, and lower-wage workers faced prolonged hardship from lockdowns and job losses.

This K-shape persists today in 2026 and has deepened due to widening inequality. According to Moody's, the top 10% of earners in America now account for nearly 50% of consumer spending. They benefit the most from surging stock markets, home values, and tax cuts. Meanwhile, lower- and middle-income groups (the bottom arm) grapple with inflation on staples, debt burdens, wage stagnation, and an uneven job recovery. The AI boom is exacerbating this, with stock-owning households seeing massive wealth gains and many skilled workers benefiting from boosted productivity, while others are being displaced and younger workers are finding it harder to get entry-level positions that AI can perform.

As we navigate 2026, understanding this bifurcated K-shape helps explain why the economy feels different depending on where you stand. Spending is accelerating, debt service burden is low and wealth is high. This administration has made no secret of its desire to run the economy hot and inflate the stock market ahead of the 2026 midterm elections. That would likely kick (see what I did there?) asset values higher for the upper arm of the "K".

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Tactical Asset Allocation					
Asset Class	Heavy Under-weight	Under-weight	Neutral	Over-weight	Heavy Over-weight
Fixed Income			●		
Duration		●			
Inflation				●	
Credit	●				
Foreign	●				
Equities		●			
Large Cap		●			
Mid Cap			●		
Small Cap		●			
Developed Intl.			●		
Emerging			●		
Alternatives					●
Commodities					●
Merger Arbitrage					●

Binge Box

MobLand (Paramount+)

MobLand is a pulse-pounding British crime saga on Paramount+, where fixer Harry Da Souza (Tom Hardy) navigates a brutal turf war between the Harrigan and Stevenson crime families. The Harrigan family is led by Conrad (Pierce Brosnan) and Maeve (Helen Mirren), a formidable and psychotic pair. This is classic Guy Ritchie, with gritty action, sharp dialogue, and stylish flair. It's a bit predictable, but if you are a fan of his other works (Snatch, The Gentlemen, etc.) you will enjoy this series.

About EmeraldSpark

EmeraldSpark Investments, LLC is a Registered Investment Adviser. We were founded by Ryan P. Layton, CFA in 2015 to provide personalized financial planning and fiduciary investment management services to select clients. Our investment process blends the foundations of Modern Portfolio Theory with the latest research in the field of behavioral finance. We specialize in asset allocation and investment due diligence to help provide our clients with investment strategies personalized to match their specific goals and risk comfort zone.

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